

## Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 AGRE-00 OES-06 INT-05 /095 W

-----040847Z 018154 /17

R 040645Z MAR 77

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1664

INFO AMCONSUL BOMBAY

AMCONSUL MADRAS

AMCONSUL CALCUTTA

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PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: WORLD BANK ANNUAL REPORT ON THE INDIAN ECONOMY

SUMMARY: MEMBERS OF THE AID-INDIA CONSORTIUM MET MARCH 2 FOR A BRIEFING ON THE ANNUAL WORLD BANK (WB) REPORT "ECONOMIC SITUATION AND PROSPECTS OF INDIA". THIS YEAR'S REPORT WILL BE LONGER THAN LAST YEARS AND WILL CONTAIN THREE SECTIONS: CURRENT DEVELOPMENTS, POPULATION AND POVERTY, AND GROWTH OPPORTUNITIES AND CONSTRAINTS. FINAL REPORT WILL NOT BE MADE PUBLIC UNTIL THE BEGINNING OF MAY. END SUMMARY.

1. ON WEDNESDAY, MARCH 2, JOCHEN KRASKE, HEAD OF THE WB OFFICE IN NEW DELHI, INVITED CNSORTIUM MEMBERS TO AN INFORMAL MEETING TO PRESENT THE GIST OF THEIR WB ANNUAL REPORT "ECONOMIC SITUATION AND PROSPECTS OF INDIA". THE BRIEFING WAS DONE BY OKTAY YENAL, PRINCIPAL ECONOMIST OF THE RESIDENT STAFF.

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2. CURRENT DEVELOPMENTS - THIS YEAR (1976/77) GROWTH IN NATINAL INCOME WILL BE ONLY 1-2 PERCENT ABOVE LAST YEAR WHICH WAS AN EXCEPTIONALLY GOOD YEAR. IF LAST TWO YEARS ARE AVERAGED, GROWTH IS PUT AT 5-6 PERCENT. FOOD GRAIN PRODUCTION THIS YEAR IS ESTIMATED AT 110-114 MILLION TONS COMPARED TO 120.8 MILLION TONS LAST YEAR, BUT COMMERCIAL CROPS ARE UP, HOLDING THE DECREASE

IN AGRICULTURAL PRODUCTION TO 3 PERCENT. INDUSTRY HAD A GOOD YEAR AND INDUSTRIAL PRODUCTION IS UP 10 PERCENT. EXPORTS HAVE CONTINUED TO INCREASE; UP 10 PERCENT IN REAL TERMS AND 16 PERCENT IN NOMINAL TERMS. INFLOW OF REMITTANCES HAS BEEN PUT AT DOLS 900 MILLION AT THE END OF MARCH WITH RESERVES OF DOLS 3.4 BILLION. TWO MAJOR POLICY CONCERNS ARE INFLATION AND PRICES AND SLUGGISHNESS OF DEMAND. IN THIS CONTEXT, PRICE RISES SHOULD NOT BE EXAGGERATED SINCE THE FALL WAS VERY STEEP FOR AGRICULTURAL PRODUCTS LAST YEAR AND THE SHARP PRICE INCREASES THIS YEAR HAVE LARGELY BEEN CONFINED TO COTTON, OIL SEEDS AND SUGAR.

3. POPULATION AND POVERTY- ELABORATE PROFILE DONE ON POPULATION NOTING THAT THE RATE OF GROWTH OF 2.2 PERCENT A YEAR IS THE PEAK AND AND THAT THE RATE WILL NOW BE DECLINING. CONCERN IS EXPRESSED AS TO WHETHER CURRENT MOMENTUM IN THE FAMILY PLANNING PROGRAM IN INDIA CAN BE MAINTAINED AND WHETHER EMPHASIS ON STERILIZATION HAS UNDULY DIVERTED RESOURCES FROM AREAS SUCH AS MOTHER/CHILD HEALTH AND NUTRITION. WB ESTIMATES POPULATION OF 885 MILLION BY YEAR 2000. WHEN GROWTH RATES OF AGRICULTURE PRODUCTION AND RURAL POPULATION ARE COMPARED, RURAL INCOME HAS ONLY INCREASED VERY SLIGHTLY OVER THE PAST 10 YEARS. FARMERS IN THE FIVE RICHEST STATES (19 PERCENT OF THE POPULATION) HAVE SEEN AN INCREASE OF 2.2 PERCENT WHILE PER CAPITA INCOME FELL BY 0.30 PERCENT IN THE OTHER STATES. HOWEVER, IN THE RICHER STATES INCREASE IN INCOME HAS OCCURED TO THE POOR AS WELL AS THE WEALTHIER FARMERS, HOLDING OUT THE HOPE THAT MODERN AGRICULTURE DOES HAVE AN IMPACT ON RURAL POVERTY.

4. GROWTH OPPORTUNITIES AND CONSTRAINTS- THE GROWTH RATE IN INDUS- LIMITED OFFICIAL USE

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TRY SINCE THE MID 1960'S HAS BEEN ONE OF THE LOWEST IN THE WORLD. GIVEN THE CURRENT AVAILABILITY OF RESOURCES, THE NEED IS TO INCREASE INVESTMENT IN AGRICULTURE AND INFRASTRUCTURE. WITH GOOD BALANCE OF PAYMENTS SITUATION AND FOOD STOCKS THIS IS FEASIBLE. THE CONSTRAINT ON REAL GROWTH IS NOW ON THE DEMAND SIDE RATHER THAN THE SUPPLY SIDE. ON BALANCE OF PAYMENTS THE WB SEES A TRADE DEFICIT OF DOLS 600 MILLION THIS YER WITH EXPORTS (EXCLUDING SUGAR) ROWING BY 19 PERCENT IN REAL TERMS AND 28 PERCENT IN NOMINAL TERMS. IMPORTS OF FOOD, OIL, FERTILIZER AND STEEL ARE ALL DOWN. NEXT YEAR A DEFICIT IN THE RANGE OF DOLS 900 MILLION TO DOLS 1 BILLION IS FORECAST WITH EXPORTS ONLY UP 7 1/2 PERCENT IN REAL TERMS AND 15 PERCENT IN VALUE TERMS. THE INCREASE IN THE DEFICIT WILL BE DUE TO LARGE IMPORTS OF COTTON, SYNTHETIC FIBERS AND EDIBLE OILS; AND HIGH IMPORT COSTS OF CAPITAL GOODS, IN PARTICULAR THOSE ASSOCIATED WITH BOMBAY HIGH AND KUDREMUH.

5. ON THE QUESTION OF INDIA'S NEED FOR AID, THE DRAFT REPORT STRESSES THAT IMPROVED BALANCE OF PAYMENTS SITUATION SHOULD BE NO CAUSE FOR COMPLACENCY INDIA IS STILL POOR AND FOREIGN AID

ACCOUNTS FOR ONLY 1.7 PERCENT OF GDP OR DOLS 2.50 PER PERSON PER YEAR. REPORT URGES GOI TO GO FOR EXPANSIONARY POLICIES AND AID WILL BE AN IMPORTANT COMPONENT IF THIS IS TO OCCUR.

6. AT THE CONCLUSION OF PRESENTATION, QUESTION WAS ASKED BOUT BANK'S VIEW ON DEBT RELIEF. IT HAS BEEN DECIDED THAT THE BANK WILL NOT TRY TO PUT TOGETHER A PACKAGE THIS YEAR BUT WILL ENCOURAGE EACH COUNTRY TOMAINTAIN ITS LEVEL OF AID, INCLUDING DEBT RELIEF, IN HOPES THAT COMMITMENTS MADE THIS YEAR WILL BE AT THE SAME LEVELS OF THOSE MADE IN THE PAST.

7. YENAL WILL GO WASHINGTON NEXT WEEK TO DISCUSS THE DRAFT REPORT. HOWEVER, THE FINAL REPORT WILL NOT BE RELEASED UNTIL EARLY MAY, ABOUT SIX WEEKS BEFORE THE SCHEDULED MEETING OF THE CONSORTIUM ON JULY 4-5. THE LATE DATE THIS YEAR IS DUE TO THE DELAYED PRESENTATION OF THE GOI BUDGET WHICH WILL NOT BE UNTIL THE END OF MAY.

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8. COMMENT- BY AND LARGE, EMBASSY AGREES WITH WB ANALYSIS OF CURRENT SITUATION, ALTHOUGH WE SEE A SMALLER TRADE DEFICIT FOR THIS YER, I.E; ON THE ORDER OF DOLS 230 MILLION. THE REPORT'S DISCUSSION OF RURAL POVERTY SHOULD MAKE INTERESTING READING. THE CONCLUSION OF THE REPORT THAT INDIA SHOULD ADOPT AN EXPANSION-ARY POLICY GIVEN THE ABSENCE OF USUAL FOREIGN EXCHANGE AND FOOD CONSTRAINTS IS ONE WITH WHICH WE AGREE.  
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## Message Attributes

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**Decaption Date:** 01-Jan-1960 12:00:00 am  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Status:** NATIVE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009